

Message Text

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PAGE 01 STATE 057053

62

ORIGIN TRSE-00

INFO OCT-01 EUR-12 ISO-00 EB-07 SSO-00 NSCE-00 INRE-00

AID-05 CEA-01 CIAE-00 COME-00 EA-06 FRB-03 INR-07

IO-10 NEA-09 NSAE-00 OPIC-03 SP-02 CIEP-01 LAB-04

SIL-01 OMB-01 SS-15 NSC-05 L-02 FEA-01 OES-03 USIE-00

PRS-01 PA-01 /101 R

TX-387

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TO USMISSION OECD PARIS IMMEDIATE

C O N F I D E N T I A L STATE 057053

E.O. 11652:GDS

TAGS: EFIN

SUBJECT:PAPER FOR IEA FII WORKING GROUP

FOR KORP

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CONFIDENTIAL

PAGE 02 STATE 057053

1. PLEASE DELIVER THE FOLLOWING PAPER TO ASSISTANT SECRETARY COOPER AND IF IT IS ACCEPTABLE TO HIM GIVE IT TO OECD

SECRETARIAT FOR DISTRIBUTION TO FII WORKING GROUP.

-- THE ISSUE

2. THE OPEC COUNTRIES HAVE INDICATED THAT THEY WISH TO OBTAIN FOR THEMSELVES AND THE OTHER DEVELOPING NATIONS A SUBSTANTIAL INCREASE IN CONTROL OVER MANAGEMENT AND THE DECISION-MAKING PROCESS IN THE AREAS OF INTERNATIONAL MONETARY AFFAIRS AND DEVELOPMENT ASSISTANCE. NO SPECIFIC PROPOSALS HAVE BEEN PUT FORWARD, AND IT IS NOT CLEAR THAT THERE IS AGREEMENT ON MORE THAN A GENERAL DESIRE FOR INCREASED INFLUENCE. PRESUMABLY, INTEREST WOULD CENTER ON THE IMF AND THE WORLD BANK GROUP OF LENDING INSTITUTIONS, ALTHOUGH THE INTER AMERICAN DEVELOPMENT BANK AND THE ASIAN DEVELOPMENT BANK MIGHT ALSO BE AFFECTED.

-- PRELIMINARY COMMENTS

3. THE FOLLOWING COMMENTS WOULD BE RELEVANT TO PROPOSALS FOR INCREASED OIL-EXPORTER AND DEVELOPING COUNTRY PARTICIPATION IN THE IMF AND IBRD.

4. IN BOTH THE IMF AND IBRD, THE SYSTEM OF VOTING -- IN WHICH EACH COUNTRY RECEIVES 250 "BASIC" VOTES PLUS 1 VOTE FOR EACH SDR 100,000 OF IMF QUOTA OR IBRD SUBSCRIPTION -- PROVIDES AN APPROPRIATE BALANCE BETWEEN COUNTRIES LARGE AND SMALL, DEVELOPED AND DEVELOPING. THIS VOTING ARRANGEMENT HAS PLAYED A MAJOR ROLE IN INSURING THE EFFECTIVENESS OF THESE INSTITUTIONS AND HAS HELPED TO ASSURE THEM OF THE REPUTATION FOR SOUNDNESS -- IN LEGISLATURES, IN THE PRIVATE FINANCIAL COMMUNITY, AND IN THE PUBLIC AT LARGE -- WHICH IS ESSENTIAL TO THEIR CONTINUED SUPPORT AND SUCCESS.

5. IN THE EXECUTIVE BOARDS OF THE FUND AND BANK, AND IN THE RELEVANT MINISTERIAL-LEVEL COMMITTEES -- THE IMF'S INTERIM COMMITTEE AND THE JOINT IMF/IBRD DEVELOPMENT COMMITTEE -- THE LDC'S HAVE NINE OF THE TWENTY AVAILABLE SEATS. IN THE FUND, INDIVIDUALS FROM OPEC COUNTRIES HAVE TWO OF THE LDC EXECUTIVE DIRECTORSHIPS (INDONESIA AND

CONFIDENTIAL

PAGE 03 STATE 057053

IRAN), AND FOUR MEMBERS OF THE INTERIM COMMITTEE (IRAQ, VENEZUELA, NIGERIA, AND INDONESIA). ONE IBRD EXECUTIVE DIRECTOR (ALGERIA) AND ONE ALTERNATE (ECUADOR) ARE FROM OPEC COUNTRIES, AND ONE OPEC REPRESENTATIVE (KUWAIT) IS A MEMBER OF THE DEVELOPMENT COMMITTEE.

6. IN THE COURSE OF PAST REVIEWS OF IMF QUOTAS AND SUBSCRIPTIONS TO THE IBRD, THE DEVELOPING COUNTRIES HAVE BEEN ACCORDED MUCH LARGER RELATIVE INCREASES IN PARTICIPATION, AND CONSEQUENTLY IN THEIR VOTING SHARES, THAN THEY

WOULD HAVE BEEN ENTITLED TO ON THE BASIS OF THE ECONOMIC AND FINANCIAL CRITERIA USED IN THOSE REVIEWS. AT PRESENT,

STEPS ARE UNDER WAY TO PROVIDE THE OPEC NATIONS (AND THE DEVELOPING COUNTRIES AS A GROUP) WITH A SUBSTANTIALLY FURTHER INCREASED VOICE AND VOTE IN BOTH INSTITUTIONS.

7. IN THE IMF, MAJOR CONCESSIONS WERE MADE AT THE JANUARY 1975 MEETING OF THE INTERIM COMMITTEE TO MEET THE DESIRES OF THE OPEC AND DEVELOPING NATIONS REGARDING QUOTA SHARES. IT WAS AGREED IN PRINCIPLE THAT AS PART OF A GENERAL INCREASE IN TOTAL IMF QUOTAS FROM ABOUT SDR 29 BILLION TO SDR 39 BILLION, THE COMBINED QUOTA SHARE OF THE MAJOR OIL EXPORTERS WOULD BE DOUBLED (FROM 4.98 PERCENT TO 9.96 PERCENT OF TOTAL QUOTAS). IT WAS ALSO AGREED THAT THE COMBINED QUOTA SHARE OF OTHER LDC'S (EXCLUDING CHINA) WOULD BE MAINTAINED AT THE PRESENT 20.85 PERCENT LEVEL, AND THAT THE ENTIRE INCREASE IN THE OIL EXPORTERS' QUOTA SHARES WOULD BE ABSORBED BY THE DEVELOPED COUNTRIES. QUOTAS WILL BE REVIEWED AGAIN THREE YEARS AFTER THE PRESENT REVIEW, AND THIS WILL PROVIDE AN EARLY OPPORTUNITY FOR REVIEW OF CHANGES IN MEMBERS' RELATIVE POSITIONS. THIS WILL BE PARTICULARLY BENEFICIAL FOR OPEC COUNTRIES AS THEIR ECONOMIES ARE GROWING RAPIDLY.

8. THE EFFECT OF THE QUOTA REVIEW ON INDIVIDUAL COUNTRIES' POSITIONS HAVE NOT YET BEEN WORKED OUT IN DETAIL. INDEED, IT IS DIFFICULT TO REACH AGREEMENT ON THE SHARING AMONG INDIVIDUAL DEVELOPED COUNTRIES, GIVEN THE PRESSURES OF DOUBLING OPEC'S SHARE AND PROTECTING THE NON-OIL LDC'S, BUT EFFORTS ARE UNDER WAY TO FIND A SOLUTION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 057053

9. AN INCREASED VOICE IN THE IMF MUST BRING INCREASED RESPONSIBILITIES AS WELL AS PRIVILEGES. ANY INCREASE IN THE QUOTAS OF OPEC AND OTHER DEVELOPING COUNTRIES MUST BE ACCOMPANIED BY A WILLINGNESS ON THEIR PART TO MAKE THEIR CURRENCY SUBSCRIPTIONS AVAILABLE TO AND USABLE BY THE IMF IN ACCORDANCE WITH POLICIES APPLIED TO OTHER MEMBERS.

10. IN THE IBRD, THERE IS ALSO ROOM FOR INCREASING OPEC'S SHARE OF THE CAPITAL, AND A WILLINGNESS ON THE PART OF DEVELOPED COUNTRIES TO APPROVE SUCH AN INCREASE. MR. MCNAMARA HAS SUGGESTED A TREBLING OF OPEC'S SHARE, FROM 4.41 PERCENT TO 15 PERCENT OF TOTAL, BUT IT REMAINS TO BE SEEN WHETHER AN INCREASE THAT LARGE WILL BE POSSIBLE, OR WHETHER THE INCREASE SHOULD NOT BE LIMITED TO A DOUBLING OF OPEC'S SHARE AS IN THE IMF. THE IMPACT OF AN INCREASE ON THE RELATIVE VOTING SHARES OF MEMBERS AND GROUPS OF MEMBERS SHOULD BE AN ADDITIONAL PROBLEM WITH AN INCREASE AS

LARGE AS SUGGESTED BY MR. MCNAMARA IS THAT IT COULD LEAD TO STRONG PRESSURES TO ENLARGE THE NUMBER OF EXECUTIVE DIRECTORS. THIS WOULD POSE A SERIOUS PROBLEM SINCE THE

PRESENT NUMBER OF DIRECTORS IN EACH INSTITUTION IS ALREADY AT THE LIMIT OF EFFICIENCY. THEREFORE ANY QUESTIONS CONCERNING THE SIZE OF THE BOARDS AND THE DISTRIBUTION OF EXECUTIVE DIRECTORSHIPS AMONG MEMBERS SHOULD BE RESOLVED BEFORE ANY DECISION IS MADE ON THE CAPITAL INCREASE.

11. AS IN THE IMF, AN INCREASE IN OPEC'S SHARE OF IBRD CAPITAL MUST BE ACCOMPANIED BY ADDITIONAL OBLIGATIONS AS WELL AS PRIVILEGES. IN PARTICULAR, NO MAJOR SUBSCRIPTION INCREASE WOULD BE AGREED WITHOUT AN UNDERTAKING ON THE PART OF PARTICIPATING OPEC MEMBERS TO CONTRIBUTE A FAIR SHARE OF CONCESSIONAL ASSISTANCE PROVIDED BY THE WORLD BANK GROUP, SUCH AS THROUGH IDA. WHILE THE OPEC COUNTRIES HAVE MADE LOANS TO THE IMF AND WORLD BANK, THEY HAVE BEEN AT NEAR COMMERCIAL TERMS AND ARE THEREFORE NOT COMPARABLE TO THE RESOURCES MADE AVAILABLE BY DEVELOPED COUNTRIES THROUGH QUOTA AND CAPITAL SUBSCRIPTIONS.

DISCUSSION OF ANALYTICAL WORK REQUIRED AND WHERE

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PAGE 05 STATE 057053

12. WITH RESPECT TO THE QUESTION OF PARTICIPATION IN THE IMF, NO FURTHER ANALYTICAL WORK IS REQUIRED IN VIEW OF THE AGREEMENT IN PRINCIPLE ALREADY REACHED.

13. WITH RESPECT TO IBRD, THOSE MEMBERS OF THE IEA WHO ARE MEMBERS OF THE IBRD SHOULD BE PREPARED TO WORK IN THE BANK TOWARD A CONSENSUS ON MEASURES THAT MIGHT BE TAKEN TO FACILITATE EXPANDED OPEC PARTICIPATION.

14. SUBSTANTIVE NEGOTIATIONS SHOULD REMAIN IN THE INTERIM COMMITTEE AND THE BOARDS OF THE TWO INSTITUTIONS. BUT IT WOULD NOT BE INAPPROPRIATE FOR THIS SUBJECT TO BE DISCUSSED AT AN ULTIMATE MINISTERIAL CONFERENCE BETWEEN PRODUCERS AND CONSUMERS, IN THE CONTEXT OF A REVIEW OF RELEVANT WORK BEING UND

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEMBERSHIP, INTERNATIONAL ORGANIZATIONS, ORGANIZATION & MANAGEMENT, MONETARY AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchandr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE057053
Document Source: CORE
Document Unique ID: 00
Drafter: BNEWMAN
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750088-1024
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750352/aaaabuza.tel
Line Count: 206
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchandr
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 14 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 MAY 2003 by ElyME>; APPROVED <07 OCT 2003 by buchandr>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: APER FOR IEA FII WORKING GROUP FOR KORP
TAGS: EFIN, IMF
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006